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A welcome "sticker" shock: "Made in the U.S.A."

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Are American manufacturing workers getting back in the game, again?

In "Made in America, again: why manufacturing will return to the U.S." (Boston Consulting Group, August 2011), Harold L. Sirkin, Michael Zinser, and Douglas Hohner—mainly by showing that China's competitive edge is shrinking—contend that American manufacturing is making a comeback in the world market.

America's share of worldwide manufacturing had weakened because of the postwar boom in imported products from rebuilt Europe and in novelty items labeled "Made in Japan" and later by items labeled "Made in Taiwan" and "Made in India." But then America's manufacturing made a comeback in the late 1990s, dominating everyone else in high-value industries, such as computers and pharmaceuticals.

However, after joining the World Trade Organization (WTO) in 2001, China became perhaps the greatest competitive threat ever experienced by America. With its workers then making less than $1 an hour, and with other financial conditions supportive of manufacturing, China became business's default option to lower costs. What ensued was a massive building of goods-producing plants there. Now the "perfect storm" of advantages leading to this great outsourcing of manufacturing to China is ending. And the way is open for a rebirth of manufacturing in the United States.

For more than a decade, manufacturing companies have looked beyond U.S. borders, especially to China. In addition to enjoying low labor costs, corporations have accepted the sweet deals, such as corporate-tax holidays, cheap loans, and cash grants that Asian (and European) governments have used to entice companies beyond America's shores. Not only did outsourced companies succumb to China's cheap labor, artificially low currency, free infrastructure, and other incentives, manufacturers saw the great potential of the rapidly growing Chinese domestic market.

In recent years, however, the picture is looking better for American manufacturing, particularly in the South. For one thing, China's wages are rising rapidly because of increased consumer demand and labor strikes, which occasionally have included worker suicides. (In 2010, for example, Honda was forced to raise wages by 47 percent, after a series of strikes.) However, even with higher wages, labor has become scare in many parts of the China. But wages—though still much lower than those in America—are only part of the story.

Chinese utility costs have risen rapidly, up 15 percent from 2010 to 2011. And there is no more cheap industrial land available. So, to build new plants, manufacturers must move inland, thus also incurring higher transportation costs. Industrial land per square foot costs $17.29 in Shanghai and $21 in Shenzhen. By contrast, similar land in Alabama runs $1.86 to $7.43 and costs $1.30 to $4.65 in Tennessee and North Carolina. Addressing this land-costs advantage, the federal government and especially Southern states have vigorously pursued manufacturing facilities. (For example, the U.S. Department of Energy loaned Nissan $1.45 billion to build a new automobile plant in Tennessee.)

Other increased costs for manufacturing in China include rising transpacific shipping rates, the steady appreciation of the renminbi against the U.S. dollar, and—just as many a general has learned in battle—the numerous costs and other problems associated with an extended supply chain. Another potential problem is rising punitive damages from intellectual-property theft and trade disputes. For

instance, under the WTO Safeguard Agreement, the United States increased duties by 25 to 35 percent in 2009 on some Chinese tires.

Additionally, Chinese productivity increases lag behind wage increases. And although greater automation, thus lowering production costs, seems a way to increase productivity in China, this is a false assumption. Greater investment in automation would reduce a product's labor content, and the main competitive advantage of Chinese manufacturing is its low labor costs. So increased automation in China is unlikely to change the manufacturing cost equation. Therefore, although manufacturing goods with a high labor content on a vast scale probably will remain in China, plants will be built more and more in the United States where workers have higher productivity. (For example, in 2014 NCR Corporation plans to move production of its automated teller machines to a plant in Columbus, Georgia.)

The authors speculate that by 2015, the labor cost savings will probably not be enough to justify outsourcing new production of many manufactured products to China.

One can reason that with manufacturing in China losing some of its luster, companies will turn to other low-cost countries, especially in South Asia, to outsource manufacturing. (Hourly wages average $1.80 in Thailand, 49 cents in Vietnam, 38 cents in Indonesia, and 35 cents in Cambodia.) Although some transfer has taken place, the sheer number of Chinese workers dwarfs the workforce of these other countries. Additionally, Chinese workers are more productive than other workers in low-cost nations, China has a first-rate infrastructure, and the government offers many incentives. Also, wages in South Asian countries are rising. Thus, South Asian countries are incapable of absorbing all of the manufacturing for export that is projected to leave China.

And although it appears that Mexico—with its proximity to the United States (goods usually reach the United States in 1 or 2 days, compared with 21 days by ship from China) and low wage costs—would be considered for outsourcing manufacturing, drawbacks include safety concerns, poor infrastructure, and a shortage of skilled workers.

Thus, the authors believe that the return of production in the United States will accelerate in the future. However, they do not think a renaissance in U.S. manufacturing will diminish China's role as a global manufacturing entity, especially for Europe and Asian countries. But they conclude that, if current trends continue through 2020, with all costs considered, the cost equation of manufacturing in China may reverse itself—with costs in the United States being cheaper for many items, especially for North American markets.

If the above is true—and the cost gap between China and America is closed—consumers checking manufacturers' labels increasingly will see "Made in the U.S.A."